

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE RANDFONTEIN LOCAL MUNICIPALITY
REPORT ON THE ANNUAL FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of the Randfontein Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Cash and Cash Equivalents

6. I was unable to obtain sufficient, appropriate audit evidence that receipts and payments reflected in the bank statements were processed in the municipality's accounting records. Furthermore, I was unable to trace receipts and payments processed in the municipality's accounting records to the bank statements.
7. The municipality's records did not permit the application of alternative audit procedures regarding cash and cash equivalents.
8. Consequently I was unable to determine whether any adjustment relating to cash and cash equivalents of R54 424 520 as disclosed in note 13 of the annual financial statements was necessary.

Qualified opinion

9. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Randfontein Local Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP, the requirements of the MFMA and DORA.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

11. With reference to note 41 to the financial statements, the municipality is the defendant in a number of legal claims. The ultimate outcome of the matters cannot presently be determined. Consequently no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

12. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of various errors discovered during the 2013 financial cycle, and for the year ended, 30 June 2012.

Material losses

13. As disclosed in note 59 to the financial statements, material losses amounting to R2 743 339 (2012: R1 790 328) were incurred as a result of water distribution losses, which represent 9% (2012: 3%) of total water available for sale. The losses are mainly due to theft, faulty meters and leakages.

14. As disclosed in note 58 to the financial statements, material losses amounting to R30 343 347 (2012: R21 841 949) were incurred as a result of electricity distribution losses, which represent 9% (2012: 13%) of total electricity available for sale. The losses are mainly due to illegal connections and faulty meters.

Additional matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedule

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

20. The material findings are as follows:

Usefulness of information

Consistency

21. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, 25% of indicators and 51% of targets are not consistent with the objectives, indicators and targets as per the approved integrated development plan. This is due to the lack of understanding of the requirements of the Municipal Systems Act by management.

Measurability

22. The National Treasury Framework for managing programme performance information (FMPPI) requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 37% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the FMPPI.

Additional matter

23. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

24. Of the total number of 228 targets planned for the year, 93 of targets were not achieved during the year under review. This represents 41% of total planned targets that were not achieved during the year under review.

Compliance with laws and regulations

25. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Annual financial statements

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

27. Awards were made to providers who are persons in service of other state institutions, in contravention of Supply Chain Management Regulation (SCM) regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Expenditure management

28. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.
29. Reasonable steps were not taken to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Budgets

30. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Asset management

31. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

Human resource management and compensation

32. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of MSA sec 67(d).
33. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.
34. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels regulation 14(2)(a).

Strategic planning and performance management

35. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the Integrated Development Plan (IDP), as required by section 41(1)(a) of the Municipal Systems Act (MSA) and the Municipal planning and performance management regulation 1 and 9(1)(a).

36. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
37. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).
38. The annual performance report for the year under review does not include the performance of the municipality together with the name of each external service provider, a comparison of the performance with set targets and a comparison of performances with the previous financial year, as required by section 46(1)(a) and (b) of the MSA.

Internal control

39. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

40. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
41. The accounting officer did not monitor the implementation of action plans to address the internal control deficiencies over financial and performance reporting and compliance and related internal controls.

Financial and performance management

42. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
43. Management did not review and monitoring of compliance with applicable laws and regulations.
44. Management did not implement controls over daily and monthly processing and reconciling of transactions.

Governance

45. The performance audit committee did not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations.

OTHER REPORTS

Investigations

46. A forensic audit was in progress for the financial year under review. The investigation dealt with matters relating to supply chain management, fraud and financial misconduct.

Auditor-General
Johannesburg

30 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

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